

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 6829**

**BILL NUMBER:** HB 1511

**NOTE PREPARED:** Dec 26, 2004

**BILL AMENDED:**

**SUBJECT:** Volunteer Services Income Tax Deduction.

**FIRST AUTHOR:** Rep. Fry

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** The bill provides, beginning in 2006, an Adjusted Gross Income Tax deduction for an individual who provides certain volunteer services to a political subdivision. The bill limits the deduction to the lesser of: (1) the number of volunteer service hours multiplied by the minimum wage; or (2) \$3,000. The bill requires an individual who claims the deduction to maintain records substantiating the deduction for at least three years.

**Effective Date:** July 1, 2005.

**Explanation of State Expenditures:** The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. These expenses presumably could be absorbed given the DOR's existing budget and resources.

**Explanation of State Revenues:** The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who are active volunteer firefighters, EMTs, or paramedics in Indiana. Assuming the maximum \$3,000 deduction is claimed by all volunteer firefighters and EMTs, the revenue loss due to this bill could potentially total about \$2.4 M to \$2.9 M annually beginning in FY 2007. If each volunteer firefighter and EMT claims a \$1,500 deduction, the revenue loss could potentially total about \$1.2 M to \$1.4 M annually beginning in FY 2007.

***Background:*** The bill creates an AGI Tax deduction for individual taxpayers who are volunteer firefighters or EMTs providing at least one hour of volunteer firefighting or EMT service to a political subdivision during

the taxable year. The deduction is equal to the lesser of: (1) the number of volunteer service hours multiplied by the state minimum wage; or (2) \$3,000. Currently, the state minimum wage is \$5.15 per hour. If a volunteer firefighter or EMT provides volunteer service for about 11.5 hours per week, they will be able to claim the maximum \$3,000 deduction. The maximum deduction would reduce the annual income tax liability of the volunteer by \$102. If a volunteer provides about 5.5 hours per week of volunteer service, they would be able to claim a deduction of about \$1,500, thus, reducing their annual income tax liability by about \$51.

It is estimated that there are between 23,000 and 28,000 taxpayers in Indiana who could potentially qualify for the deduction (between 17,000 and 22,000 active volunteer firefighters and 6,000 volunteer EMTs). Since the deduction is effective beginning in tax year 2006, the fiscal impact would begin in FY 2007. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Because the proposed deduction would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:** Counties with a local option income tax.

**Information Sources:** Mike Garvey, State Emergency Management Agency, (317) 232-3983. Jack Kerney, Vice-President, Indiana Volunteer Firefighters Association, (877) 606-4832. Indiana Volunteer Firefighters Association, <http://www.ivfa.org/>.

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